

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: MIDAMERICAN ENERGY COMPANY	DOCKET NO. RPU-2018-0003
--	--------------------------

FINAL DECISION AND ORDER

(Issued December 4, 2018)

TABLE OF CONTENTS

INTRODUCTION AND PROCEDURAL BACKGROUND2
LEGAL STANDARDS4
CONDITIONS PRECEDENT7
 A. Energy Efficiency Plan.....7
 B. Reasonableness of the Facility.....8
 1. Generation Type Analysis8
 2. Economic Analysis12
RATEMAKING PRINCIPLES.....17
 A. Settlement Principles.....17
 1. Iowa Jurisdictional Allocation17
 2. Cost Cap18
 3. Size Cap.....18
 4. Depreciation19
 5. Return on Equity20
 6. Cancellation Cost Recovery21
 7. Environmental Benefits, CO2, and the Like.....22
 8. Federal Production Tax Credits.....23
 9. Rate Mitigation25
 10. Iowa Retail Energy Benefits27
 B. Additional Proposed Principles.....31
 1. Coal Retirements31

DOCKET NO. RPU-2018-0003
PAGE 2

2. Cost Effectiveness Analysis	33
3. Pre-Approval of Capital Additions	34
REQUEST FOR WAIVER	36
ORDERING CLAUSES	38

INTRODUCTION AND PROCEDURAL BACKGROUND

On May 30, 2018, MidAmerican Energy Company (MidAmerican) filed with the Utilities Board (Board) an “Application for Determination of Ratemaking Principles” (Application) and direct testimony seeking advance ratemaking principles for the company’s proposed 591 megawatt (MW) Wind XII Project (Wind XII).

On June 1, 2018, the Office of Consumer Advocate (OCA), a division of the Iowa Department of Justice, filed an appearance in the docket. On June 26, 2018, the Board issued an “Order Setting Scheduling Conference.” A scheduling conference was held on June 28, 2018.

Representatives from OCA, the Iowa Business Energy Coalition (IBEC), Interstate Power and Light Company (IPL), the Environmental Law and Policy Center and the Iowa Environmental Council (collectively, the Environmental Intervenors), the Sierra Club, Google LLC and Facebook Inc. (collectively, the Tech Customers), and ITC Midwest LLC (ITC) participated in the scheduling conference. On June 29, 2018, the Board issued a procedural schedule setting the matter for hearing on October 2, 2018.

On July 16, 2018, Sierra Club filed a motion to compel discovery responses from MidAmerican. The disputed data requests related to whether MidAmerican’s

DOCKET NO. RPU-2018-0003
PAGE 3

existing generation assets would continue to be used and useful should Wind XII be added to MidAmerican's portfolio. On July 25, 2018, the Board granted the motion to compel. On August 3, 2018, the Board issued an order granting intervention to IPL, IBEC, Environmental Intervenors, Sierra Club, ITC, and Tech Customers.

On August 10, 2018, MidAmerican filed a request for a waiver of the Board's rules at 199 Iowa Administrative Code (IAC) 20.9(1) and (2). The request relates to a possible inconsistency between the company's proposed Iowa Retail Electric Benefits ratemaking principle and its Energy Adjustment Clause (EAC) tariff. On the same day, MidAmerican also filed a motion to strike certain testimony of Sierra Club and Environmental Intervenors, stating that the testimony was irrelevant to the matter before the Board. OCA, Environmental Intervenors, IPL, and Sierra Club filed responses to MidAmerican's motion.

On August 27, 2018, the Board issued an order modifying the procedural schedule by moving the hearing to October 12, 2018. On September 14, 2018, MidAmerican, OCA, Tech Customers, and IBEC filed a "Stipulation and Agreement" (Settlement). In the Settlement, the settling parties noted that IPL and ITC had no position on the Settlement terms and do not object. On the same day, all parties filed a Joint Statement of Issues. On September 28, 2018, Environmental Intervenors filed an objection to the Settlement. On October 1, 2018, Sierra Club also filed an objection to the Settlement.

DOCKET NO. RPU-2018-0003
PAGE 4

Hearing on the matter was held on October 12, 2018. The parties filed post-hearing briefs on October 29, 2018.

LEGAL STANDARDS

Iowa Code § 476.53 (2017) authorizes the Board to issue advance ratemaking principles for certain electric generating and transmission facilities. The Legislature intended this section to enable the development of electric generation and transmission to provide “reliable electric service to Iowa customers” and “economic benefits to the state.”¹ The Board may grant advance ratemaking principles through a contested case proceeding; the principles adopted by the Board will apply when the costs of the facility are included in electric rates in a general rate case.²

Utilities may request ratemaking principles for baseload generating facilities with a nameplate capacity of at least 300 megawatts (MW), alternate energy production facilities, or to significantly alter an existing generating facility.³ For the purposes of the statute, an “alternate energy production facility” includes wind turbines, as well as any land or improvements necessary or convenient to the construction or operation of the facility and any transmission or distribution facilities necessary to conduct the energy produced by the alternate energy production facility.⁴

¹ Iowa Code § 476.53(1).

² Iowa Code § 476.53(3)(a).

³ Iowa Code § 476.53(3)(a)(2).

⁴ Iowa Code § 476.42(1)(a)(1)-(3).

DOCKET NO. RPU-2018-0003
PAGE 5

The standards for granting ratemaking principles for electric generating facilities are also set forth in Iowa Code § 476.53. As a condition precedent to granting ratemaking principles for a project, Iowa Code § 476.53(3)(c) requires the Board to find that:

(1) The rate-regulated public utility has in effect a board-approved energy efficiency plan as required under section 476.6, subsection 15.

(2) The rate-regulated public utility has demonstrated to the board that the public utility has considered other sources for long-term electric supply and that the facility or lease is reasonable when compared to other feasible alternative sources of supply. The rate-regulated public utility may satisfy the requirements of this subparagraph through a competitive bidding process, under rules adopted by the board, that demonstrate the facility or lease is a reasonable alternative to meet its electric supply needs.

The Board is not limited in this proceeding to traditional ratemaking principles or traditional cost recovery mechanisms.⁵ The order establishing the applicable principles must be issued before construction can begin on the project and the principles established in the order are binding with regard to the specific facility in a subsequent rate proceeding.⁶

“In determining whether a proposed facility is reasonable when compared to other feasible alternative sources of supply, the Board need not find that the facility is

⁵ Iowa Code § 476.53(3)(b).

⁶ Iowa Code § 476.53(3)(e) and (g).

DOCKET NO. RPU-2018-0003
PAGE 6

the 'least-cost' alternative."⁷ Because there is no least-cost requirement, the Board may consider non-cost factors as part of its determination.⁸

In a contested case proceeding such as an advance ratemaking principles request, the parties may propose to settle all or some of the issues in the case.⁹ The Board may approve the settlement provided the settlement is reasonable in light of the whole record, consistent with law, and in the public interest.¹⁰

In the event a proposed settlement is not supported by all parties in the proceeding, the proposing parties must conduct a conference with all parties to discuss the settlement proposal prior to Board approval.¹¹ Any party wishing to contest a proposed settlement filed with the Board must do so within 14 days after the proposal is filed, and should specify the portions of the settlement it opposes, the legal basis of the opposition, and the factual issues it contests.¹² In the event of a contested settlement, the Board may hold a hearing to address the contested, material issues of fact.¹³

⁷ *In re Interstate Power and Light Company*, "Order Cancelling Hearing and Approving Settlement Subject to Modification and Reporting Requirements," Docket No. RPU-2016-0005, at p. 4 (Oct. 25, 2016) (citing *In re MidAmerican Energy Company*, "Order," Docket No. RPU-01-09, at p. 6 (May 29, 2002)).

⁸ *Id.*

⁹ 199 IAC 7.18.

¹⁰ *Id.*

¹¹ 199 IAC 7.18(2).

¹² 199 IAC 7.18(3)-(4).

¹³ 199 IAC 7.18(5).

DOCKET NO. RPU-2018-0003
PAGE 7

CONDITIONS PRECEDENT

Before the Board considers MidAmerican's requested ratemaking principles, the Board must determine whether MidAmerican has met the statutory requirements of Iowa Code § 476.53. In order to grant ratemaking principles, the Board must find that MidAmerican has a Board-approved energy efficiency plan in effect and that MidAmerican has demonstrated it has "considered other sources for long-term electric supply and that the facility or lease is reasonable when compared to other feasible alternative sources of supply" as required by Iowa Code § 476.53(3)(c)(1)-(2).

A. Energy Efficiency Plan

MidAmerican states it has in effect a Board-approved energy efficiency plan that runs from 2014 to 2018.¹⁴ MidAmerican states the plan has been evaluated by the Board in Docket No. EEP-2012-0002 and was originally approved on December 16, 2013.¹⁵

Board Discussion

On December 16, 2013, the Board issued a "Final Order" in Docket No. EEP-2012-0002 approving MidAmerican's proposed energy efficiency plan.¹⁶ The plan,

¹⁴ MidAmerican Exh. Wright Dir. at pp. 36-37.

¹⁵ *Id.*

¹⁶ *In re MidAmerican Energy Company*, "Final Order," Docket No. EEP-2012-0002 (Dec. 16, 2013).

DOCKET NO. RPU-2018-0003
PAGE 8

as approved in that order, is in the final year of implementation.¹⁷ Therefore, the Board finds that MidAmerican has complied with Iowa Code § 476.53(3)(c)(1).

B. Reasonableness of the Facility

To demonstrate that it has considered other sources of long-term electric supply and that Wind XII is reasonable when compared to other facilities, MidAmerican began by evaluating wind generation against other generation sources, then evaluated the benefits of proposed Wind XII based on modeling assumptions about the costs and benefits of the project.

1. Generation Type Analysis

MidAmerican states it has considered nine criteria: (1) cost; (2) cost robustness; (3) environmental reasonableness; (4) system reliability; (5) economic development; (6) geopolitical uncertainty; (7) flexibility/optionality; (8) diversity; and (9) resource availability/stability.¹⁸ MidAmerican contends that these criteria and its subsequent analysis demonstrate that Wind XII is a reasonable option for providing a source of low-cost energy that meets customer needs, supports environmental needs and compliance efforts, and strengthens energy security as well as the communities served by MidAmerican.¹⁹

¹⁷ *Id.* at 65. MidAmerican's next energy efficiency plan has already been filed with the Board, ensuring that the company has an energy efficiency plan in effect throughout the Board's consideration of MidAmerican's request for ratemaking principles. See Docket No. EEP-2018-0002.

¹⁸ MidAmerican Exh. Hammer Dir. at pp. 2.

¹⁹ *Id.* at 2-3.

DOCKET NO. RPU-2018-0003
PAGE 9

MidAmerican states that the alternatives to Wind XII are somewhat limited. Due to regulatory uncertainty regarding carbon emissions and mitigation, coal-fired generation is not a reasonable option.²⁰ MidAmerican also states that small, modular nuclear reactors are not yet viable.²¹ This leaves natural gas generation as the only “conventional” generation that would be realistically available to fulfill MidAmerican’s needs, and only if regulatory uncertainty regarding carbon emissions are resolved and mitigation measures become technically and economically viable.²²

Finally, MidAmerican contends that among potential renewable alternatives, only biomass, utility-scale photovoltaic cell (solar PV) and hydroelectric generation are available at a similar scale as wind generation.²³ MidAmerican argues biomass and hydroelectric generation suffer from other environmental issues that are not presented by wind energy.²⁴ MidAmerican concludes that solar PV is not a viable alternative because of its cost and Iowa’s relatively low solar insolation level.²⁵

MidAmerican applied its nine factors to conduct a largely qualitative analysis of Wind XII when compared to other available options, taking into account that Iowa law recognizes generation resource planning is not limited to least-cost planning.²⁶ The analysis found Wind XII to be reasonable as compared to other generation options,

²⁰ *Id.* at 21.

²¹ *Id.*

²² *Id.*

²³ *Id.*

²⁴ *Id.*

²⁵ *Id.* MidAmerican notes that it currently operates a demonstration project PV solar unit of approximately 63 MW, which is far smaller than the 591 MW sought in Wind XII. *Id.* at 21-22.

²⁶ *Id.* at 22.

DOCKET NO. RPU-2018-0003
PAGE 10

largely due to its favorable attributes in terms of cost, environmental reasonableness, economic development, geopolitical uncertainty, diversity, and resource availability/stability.²⁷

Environmental Intervenors contend MidAmerican has not adequately considered all feasible alternatives.²⁸ Environmental Intervenors contend that MidAmerican should consider energy efficiency and demand response as potential resources in its analysis, as well as solar PV.²⁹ Environmental Intervenors note that the Midcontinent Independent System Operator (MISO) utilizes a much larger capacity credit for solar PV (at 50% of the nameplate capacity of the facility) than for wind generation (currently at 15.5% of the nameplate capacity of the facility) due to solar PV's availability during peak summer hours.³⁰

Environmental Intervenors note that for a summer-peaking utility like MidAmerican, solar is well-suited to provide energy and capacity during times of high load.³¹ Environmental Intervenors also state the Federal Solar Investment Tax Credit, which currently covers 30% of the cost of a commercial solar PV system, will begin to phase down in 2020; Environmental Intervenors contend that this would be an ideal time for MidAmerican to pursue solar PV projects.³²

²⁷ *Id.* at 23.

²⁸ Environmental Intervenors Exh. Johannsen Dir. at pp. 19-24.

²⁹ *Id.*

³⁰ *Id.* at 20 (citing 2018 Organization of MISO States MISO Survey Results, June 2018.)

³¹ *Id.* at 20-21.

³² *Id.* at 23-24.

DOCKET NO. RPU-2018-0003
PAGE 11

Sierra Club contends MidAmerican has not demonstrated that its existing generation fleet will continue to be used and useful once Wind XII is operational.³³ Sierra Club argues MidAmerican has not conducted an analysis of the economics of the continued operation of its coal-fired generation.³⁴ Sierra Club argues that its analysis of MidAmerican's generation fleet shows that MidAmerican will continue to operate coal-fired plants that will be uneconomic despite MidAmerican's claims that 100% of customer energy needs are met with renewable energy.³⁵

Sierra Club further argues the Board has required companies seeking ratemaking principles to evaluate a proposed project as part of its overall generation portfolio.³⁶ Sierra Club contends it is difficult to assess the reasonableness of a proposed project without considering how it fits within the company's existing portfolio.³⁷

MidAmerican responds to these concerns by stating Iowa law does not require an integrated resource plan and only requires the company to determine the project is reasonable when compared to other reasonable sources of electric supply.³⁸

MidAmerican further contends the Board has removed the requirement for a least-

³³ Sierra Club Exh. Chernick Dir. at pp. 4-5.

³⁴ *Id.* at 5.

³⁵ *Id.* at 6-8.

³⁶ Sierra Club Prehearing Br. at pp. 7-10 (citing Board orders in Docket Nos. RPU-2005-0004 and RPU-2016-0005).

³⁷ *Id.*

³⁸ MidAmerican Prehearing Br. at pp. 4-6.

DOCKET NO. RPU-2018-0003
PAGE 12

cost analysis from siting requirements because the purpose of the statute is to encourage the development of electric generation facilities within the state.³⁹

2. Economic Analysis

MidAmerican states the economic viability of Wind XII relies on the availability of federal production tax credits (PTCs). Without the tax credits, the project would likely be a net cost to customers.⁴⁰ MidAmerican states its economic analysis is similar to what has been utilized in previous wind generation projects before the Board.⁴¹ MidAmerican witness Thomas Specketer states his analysis begins by determining the revenue requirement for the project, which represents the project costs, then determines the revenue stream or benefits of the project.⁴²

Mr. Specketer states the costs and benefits calculation includes the costs of construction and transmission interconnection for the proposed 591 MW of generation and the costs of securing the rights to wind turbine sites and transmission facilities.⁴³ The analysis also utilizes estimates of the revenue and operating costs, operation and maintenance costs, and system benefits.⁴⁴ MidAmerican then adjusted these estimates to create four scenarios, including the initial reference case, a “No CO₂ Case,” a “Low-Gas/No CO₂ Case,” and a “30-Year Reference Case.”⁴⁵

³⁹ *Id.*

⁴⁰ MidAmerican Exh. Specketer Dir. at p. 11.

⁴¹ *Id.* at 14.

⁴² *Id.*

⁴³ *Id.* at 14-15.

⁴⁴ *Id.*

⁴⁵ *Id.* at 15.

DOCKET NO. RPU-2018-0003
PAGE 13

Based on MidAmerican's economic analysis, Wind XII will be a net benefit to customers in three of the four modeled scenarios.⁴⁶

MidAmerican notes the Tax Cuts and Jobs Act of 2017 (TCJA) negatively affects the economic analysis of Wind XII, but Wind XII is still expected to generate significant benefits for customers.⁴⁷ Mr. Specketer explains this is because while the tax cut resulted in a reduction in the levelized revenue requirement before PTCs and other offsets were applied, the value of PTCs as an offset were reduced due to the change in the gross-up rate used to calculate the value of the offset.⁴⁸ This negatively impacted the net results of the Wind XII modeling, but the project is still anticipated to provide significant benefits.⁴⁹ Mr. Specketer alleges the proposed principles reflect a fair balancing of the risks and benefits of the project between MidAmerican and its customers.⁵⁰

IBEC witness Maurice Brubaker argues that although only the "Low Gas/No CO₂ Case" would produce a net cost to customers, that scenario is a more realistic projection than the reference case utilized by MidAmerican.⁵¹ Mr. Brubaker also notes that many of MidAmerican's benefits are dependent upon its assumptions of a 40-year depreciable life for the project and a minimum capacity factor of 45%.⁵² If Wind XII does not meet those assumptions, the project would likely result in a net

⁴⁶ *Id.*

⁴⁷ *Id.* at 33-34.

⁴⁸ *Id.* at 34.

⁴⁹ *Id.*

⁵⁰ *Id.*

⁵¹ IBEC Exh. Brubaker Dir. at pp. 8-9.

⁵² *Id.* at 12-13.

DOCKET NO. RPU-2018-0003
PAGE 14

cost to customers.⁵³ For these reasons, Mr. Brubaker proposes a provision that would assure the projected capacity factor for the project and would require MidAmerican to provide, on a five-year rolling average basis, full PTC and energy benefits to customers based on the maximum PTC value and actual market energy prices at not less than a 40% capacity factor.⁵⁴ Nevertheless, IBEC was a signatory to the Settlement and did not offer additional comments or objections regarding this point in the Settlement.⁵⁵

OCA states the capacity factor assumed by MidAmerican in this case is reasonable and lower than other projected capacity factors presented to the Board in the past.⁵⁶ OCA also contends MidAmerican's energy market revenue projection is reasonable, even though the assumption does not specifically note the impact of all potential new wind projects in the market.⁵⁷ OCA witness Brian Turner states MidAmerican's analysis indicates the project may be beneficial to MidAmerican's customers and the state as a whole.⁵⁸ Mr. Turner states he believes MidAmerican's cost and benefit estimates are reasonable based on previous projects approved by the Board.⁵⁹

⁵³ *Id.*

⁵⁴ *Id.* at 20.

⁵⁵ See Settlement at p. 8.

⁵⁶ OCA Exh. Shi Reb. at pp. 6-18.

⁵⁷ *Id.*

⁵⁸ OCA Exh. Turner Reb. at pp. 4-7.

⁵⁹ *Id.*

DOCKET NO. RPU-2018-0003
PAGE 15

Board Discussion

In order to grant ratemaking principles, the Board must find that MidAmerican has demonstrated that it has considered Wind XII against other feasible sources of long-term supply and that Wind XII is reasonable as compared to those other sources. The Board finds that MidAmerican has satisfactorily demonstrated that Wind XII, as proposed, is reasonable when compared to other sources of long-term electric supply.

The Board notes that MidAmerican showed the reasonableness of Wind XII in two ways. First, MidAmerican evaluated wind generation against other reasonable generation sources that are currently available to utilities. The parties seem to agree that coal, based on current factors including future regulatory uncertainty, is not a feasible long-term source of supply. Similarly, biomass and hydroelectric generation are not feasible based on the economics of those generation sources. This means that natural gas, wind, and solar PV are the only reasonable options available at this time for MidAmerican's evaluation.

MidAmerican and Environmental Intervenors offered different perspectives on the reasonableness of solar PV. Although Environmental Intervenors note that solar would be well-situated to address MidAmerican's summer peaks, they did not indicate how well solar PV would address many of the other criteria utilized by MidAmerican when evaluating the reasonableness of wind generation.

DOCKET NO. RPU-2018-0003
PAGE 16

MidAmerican's nine criteria encompass a wide variety of factors, including both current factors such as cost and long-term factors such as generation diversity, environmental reasonableness, and geopolitical uncertainty. As noted by MidAmerican, the Iowa Code does not require a company to simply select the lowest cost solution for its energy needs; the company may consider a variety of factors when evaluating a potential project. In any situation, the company must only show that the project is reasonable as compared to those other projects. The Board finds that MidAmerican's nine criteria process, and subsequent analysis, is sufficient to demonstrate that wind generation is reasonable as compared to other feasible alternative sources of supply.

MidAmerican also provided an economic analysis of the project to address the viability of the project based on a variety of future scenarios. MidAmerican contends, and OCA agrees, that the depreciable life and capacity factor assumptions are reasonable. To the extent IBEC raised concerns about some of MidAmerican's modeling assumptions, the parties, including IBEC, settled on a series of mutually-agreeable terms and principles. MidAmerican also explained the rationale behind the assumed discount rate and indicated that a similar system has been utilized for 30 years.

The Board finds that MidAmerican has demonstrated that it has considered the reasonableness of Wind XII as compared to other feasible sources of long-term supply and that Wind XII is reasonable. MidAmerican has demonstrated why it has

DOCKET NO. RPU-2018-0003
PAGE 17

proposed this project and the benefits of this project as compared to other options. For these reasons, the Board finds that MidAmerican has complied with the requirements of Iowa Code § 476.53(3)(c)(1)-(2) and that ratemaking principles should be granted.

RATEMAKING PRINCIPLES

As part of its application for ratemaking principles, MidAmerican proposed nine ratemaking principles.⁶⁰ During the settlement process, MidAmerican and the other settling parties agreed to four of the principles without modification, amended the remaining five principles, and added a new ratemaking principle.⁶¹ During the course of this matter, Sierra Club and the Environmental Intervenors proposed three additional principles for consideration by the Board.

A. Settlement Principles

Board rule 199 IAC 7.18 provides that the Board will not approve a settlement unless it “is reasonable in light of the whole record, consistent with law, and in the public interest.” The Settlement contained ten proposed principles.

1. Iowa Jurisdictional Allocation

The first Settlement principle, entitled Iowa Jurisdictional Allocation, reads: “Wind XII will be allocated to Iowa in the same manner as the Greater Des Moines Energy Center, Walter Scott Jr. Energy Center Unit No. 4, and prior Wind Power

⁶⁰ Application at pp. 14-15.

⁶¹ Settlement at pp. 2-5.

DOCKET NO. RPU-2018-0003
PAGE 18

Projects (i.e., Wind I through Wind XI).⁶² This principle is unchanged from the original principle sought by MidAmerican.⁶³ The principle was not contested by Sierra Club or Environmental Intervenors in their responses to the Settlement.

2. Cost Cap

The second Settlement principle reads:

A cost cap of \$1.560 million per MW (including AFUDC) on a Project-wide basis. In the event that actual capital costs are lower than the projected capital costs, rate base shall consist of actual costs. In the event actual capital costs exceed the cost cap, MidAmerican shall be required to establish the prudence and reasonableness of such excess costs before such excess costs can be included in rates.⁶⁴

This principle is unchanged from MidAmerican's original requested principle.⁶⁵ OCA notes the proposed cost cap is lower than the cost caps approved by the Board in Wind X and Wind XI, and that the proposed cost cap is reasonable.⁶⁶ Neither Sierra Club nor Environmental Intervenors addressed the principle in their responses to the Settlement.

3. Size Cap

The third Settlement principle reads: "The ratemaking principles shall be applicable to all new MidAmerican wind generation built as part of Wind XII, not to exceed 591 MW."⁶⁷ This principle is substantively similar to MidAmerican's original

⁶² Settlement at p. 2.

⁶³ Application at p. 14.

⁶⁴ Settlement at p. 2.

⁶⁵ Application at p. 15.

⁶⁶ OCA Exh. Shi Dir. at pp. 3-6.

⁶⁷ Settlement at p. 2.

DOCKET NO. RPU-2018-0003
PAGE 19

Size Cap principle.⁶⁸ MidAmerican states the size cap was selected because it represents the reasonably expected amount of new wind generation that could be added based on site availability, PTC qualification constraints, and economic conditions.⁶⁹ OCA has no concerns about the proposed size cap.⁷⁰ No party addressed the size cap in their responses to the Settlement.

4. Depreciation

The fourth Settlement principle addresses the depreciable life of Wind XII for ratemaking purposes. It reads:

The depreciation life of the Wind XII Project for ratemaking purposes shall be 40 years. MidAmerican shall be able to revise the depreciable life in the event an independent depreciation expert provides support for a different useful life and a change in the depreciable life is approved by the Board in a contested case proceeding in which parties to the ratemaking principles proceeding may participate and present evidence either in support of or in opposition to the proposed change in depreciable life. MidAmerican shall notify such parties of any application filed with the Board asking that the depreciable life of Wind XII be revised.⁷¹

This principle is identical to MidAmerican's original proposed "Depreciable Life" principle.⁷² OCA states that although the proposed depreciable life of Wind XII is ten years longer than previous projects, 40 years reasonably reflects the currently accepted useful life of wind turbines.⁷³ The parties did not contest the Depreciation principle in the Settlement or comments addressing the Settlement.

⁶⁸ Application at p. 15.

⁶⁹ MidAmerican Exh. Fehr Dir. at pp. 22-23.

⁷⁰ OCA Exh. Shi Dir. at p. 6.

⁷¹ Settlement at p. 2.

⁷² Application at p. 15.

⁷³ OCA Exh. Turner Dir. at p. 10.

DOCKET NO. RPU-2018-0003
PAGE 20

5. Return on Equity

In the Settlement, the parties proposed the following principle:

The allowed return on the common equity portion of Wind XII, constructed pursuant to this Ratemaking Principles Application, that is included in Iowa electric rate base, shall be 11.00%. An AFUDC rate that recognizes a return on common equity rate of 10.0% shall be applied to construction work in progress.⁷⁴

MidAmerican's original proposed principle is nearly identical to the Settlement principle but would allow for a return on equity (ROE) of 11.25%.⁷⁵ During the course of the proceeding, the parties offered three potential ROE rates. MidAmerican witness James Vander Weide stated that an ROE of 11.25% is reasonable, based on three primary modeling methods.⁷⁶ OCA witness Marcos Munoz utilized two of the same modeling methods as Dr. Vander Weide to arrive at a proposed ROE of 11%.⁷⁷ IBEC witness Christopher Walters utilized the same three methods as Dr. Vander Weide in recommending an ROE of 9.35%.⁷⁸ All three of the parties that offered ROE testimony agreed to the Settlement principle ROE of 11.00%.⁷⁹

The parties also offered evidence regarding the Allowance for Funds Used During Construction (AFUDC) rate. MidAmerican states an AFUDC rate of 10% is reasonable and corresponds with prior wind projects.⁸⁰ OCA agrees with an AFUDC rate of 10%, noting it is consistent with the Uniform System of Accounts requirement

⁷⁴ Settlement at p. 2.

⁷⁵ Application at p. 15.

⁷⁶ MidAmerican Exh. Vander Weide Dir. at pp. 18-43.

⁷⁷ OCA Exh. Munoz Dir. at pp. 4-32.

⁷⁸ IBEC Exh. Walters Dir. at pp. 21-50.

⁷⁹ Settlement at p. 2.

⁸⁰ MidAmerican Exh. Vander Weide Dir. at p. 43.

DOCKET NO. RPU-2018-0003
PAGE 21

and the rate approved in prior wind cases.⁸¹ IBEC contends 9.35%, the rate it proposes for the project ROE, should be used for the AFUDC rate as well.⁸² As with the project ROE, all three parties agreed to an AFUDC rate of 10%, as set forth in the Settlement principle.⁸³

6. Cancellation Cost Recovery

The sixth Settlement principle addresses MidAmerican's recovery of costs should the project be canceled. The principle states:

In the event MidAmerican cancels any Wind XII Project site for a commercially reasonable cause, MidAmerican's prudently incurred and unreimbursed costs shall be amortized over a period of ten years beginning no later than six months after the cancellation. The annual amortization shall be recorded above-the-line and included in MidAmerican's revenue sharing or revenue requirement calculations, but the unamortized balance shall not be included in rate base in any such calculations.⁸⁴

This is substantively similar to MidAmerican's original proposed principle, which would allow recovery should the project be canceled "for good cause."⁸⁵ At hearing, MidAmerican states the change from "good cause" to "commercially reasonable cause" does not change the meaning of the principle.⁸⁶ In testimony, OCA proposed modifying the language to require MidAmerican to minimize potential cancellation costs;⁸⁷ nevertheless, OCA stated the language was reasonable and

⁸¹ OCA Exh. Munoz Dir. at pp. 32-34.

⁸² IBEC Exh. Walters Dir. at p. 51.

⁸³ Settlement at p. 2.

⁸⁴ Settlement at p. 2.

⁸⁵ Application at p. 15.

⁸⁶ Tr. at p. 109.

⁸⁷ OCA Exh. Turner Dir. at pp. 11-12.

DOCKET NO. RPU-2018-0003
PAGE 22

agreed to the Settlement principle.⁸⁸ Again, Sierra Club and Environmental Intervenor did not challenge the principle as set forth in the Settlement.

7. Environmental Benefits, CO2, and the Like

In the Settlement, the parties proposed the following principle:

Excluding any contractual obligations for environmental benefits that exist as of 1/1/2015, all environmental benefits of Wind I-X and Wind XII (including any repowering, additions, replacements or expansion(s)) shall be allocated to each of the customer classes based on class kilowatt hour (“kWh”) sales. Upon the written election by any Individual Customer Rate (“ICR”) customer (“Electing Customer”), MidAmerican shall retire, or retire on behalf of the Electing Customer (so long as retirement on behalf of such customer does not jeopardize MidAmerican’s ability to comply with environmental regulations or constitute a transfer of the environmental and compliance benefits), through the Midwest Renewable Energy Tracking System (“M-RETS”), or other comparable process acceptable to the Electing Customer, such Electing Customer’s allocation of the environmental and compliance benefits of Wind I-X and Wind XII (including any repowering, additions, replacements or expansion(s)) that MidAmerican does not need for environmental compliance. Any Electing Customer shall notify MidAmerican within 60 days of MidAmerican’s notice to customers of this option, which notice shall be provided within 30 days of a final order of the Iowa Utilities Board approving ratemaking principles associated with Wind XII that are acceptable to MidAmerican. For future ICR customers, MidAmerican must provide notice to customers of the option to elect this option within 30 days of their becoming an ICR customer. MidAmerican will prudently manage all other environmental and compliance related benefits from Wind I-X and Wind XII (including any repowering, additions, replacements or expansion(s)) for the benefit of all other customers. MidAmerican will provide at least eighteen months’ notice to customers prior to any change in MidAmerican’s current policy of retiring all renewable energy certificates on behalf of all customers. The Iowa portion of any revenues from the sale of environmental or compliance related benefits associated with Wind I-X and Wind XII, excluding any contractual obligations for environmental benefits that exist as of 1/1/2015, shall be recorded as a regulatory liability and will be excluded from the Iowa Energy Adjustment Clause (“EAC”) and revenue sharing

⁸⁸ *Id.*; Settlement at p. 2.

DOCKET NO. RPU-2018-0003
PAGE 23

as approved in MidAmerican's 2013 rate case until the investment and all other costs and benefits of Wind XII are included in base rates or the EAC in a future rate proceeding. For subsequent rate cases, MidAmerican proposes that the Iowa jurisdictional portion of the investment and all other costs and benefits of Wind XII shall be included in base rates, and the Iowa jurisdictional portion of any revenues from the sale of environmental or compliance related benefits associated with Wind XII shall be included in the EAC.⁸⁹

The original principle offered by MidAmerican was limited to Wind XII and did not carve out an exclusion for any contractual obligations that existed as of January 1, 2015.⁹⁰ OCA states the principle is reasonable and consistent with prior ratemaking principles, but MidAmerican should be obligated to monetize all Renewable Energy Credits (RECs) it receives for Wind XII.⁹¹ The Settlement principle expands the scope of the principle to Wind I-X, but does not include language regarding the monetization of RECs.⁹² Sierra Club and Environmental Intervenors did not address this principle in their comments regarding the Settlement.

8. Federal Production Tax Credits

The eighth Settlement principle addresses federal PTCs. The principle reads:

The Iowa jurisdictional portion of any federal production tax credits associated with Wind XII will be recorded above-the-line in FERC account 409.1, or any successor account for recording such credits. However, the Iowa jurisdictional portion of any federal production tax credits associated with Wind XII will be excluded from the Iowa EAC. For subsequent rate proceedings that address Wind XII, the Iowa jurisdictional portion of the investment and all other costs and benefits of Wind XII shall be included in base rates, and the Iowa jurisdictional

⁸⁹ Settlement at pp. 2-3.

⁹⁰ Application at pp. 15-16.

⁹¹ OCA Exh. Turner Dir. at pp. 13-14.

⁹² Settlement at pp. 2-3.

DOCKET NO. RPU-2018-0003
PAGE 24

portion of any federal production tax credits associated with Wind XII shall be included in the EAC.

Customers shall receive, through customer rates or through revenue sharing, the full value of the federal production tax credits associated with Wind XII. The value that customers receive in rates or through revenue sharing shall be the grossed up value of the production tax credit. To the extent MidAmerican is not able to monetize the production tax credits in the year they are earned, MidAmerican will earn its embedded cost of debt on the deferred tax asset.

To the extent any turbines are not commercially operational in time to receive 100% of the maximum production tax credit benefits under tax law as of the date this principle is effective, the return on rate base associated with such turbines which shall include a capacity ratio share of any interconnection, transmission, distribution and AFUDC costs will be limited to MidAmerican's embedded cost of debt.⁹³

MidAmerican's original proposed principle did not address the total value of PTCs to be delivered to customers nor the return MidAmerican would receive should any of the turbines fail to qualify for 100% of the maximum PTC benefits.⁹⁴ OCA did not oppose the original principle.⁹⁵

IBEC argued the principle include guarantees that ratepayers would receive the full grossed-up value of PTCs without having to compensate MidAmerican for return on any deferred tax assets that may be created as a result of MidAmerican being unable to fully monetize PTCs as generated.⁹⁶ IBEC also argued for language that substantially matches the last paragraph of the Settlement principle.⁹⁷

⁹³ Settlement at pp. 3-4.

⁹⁴ Application at p. 16.

⁹⁵ OCA Exh. Turner Dir. at p. 14.

⁹⁶ IBEC Exh. Brubaker Dir. at p. 20.

⁹⁷ *Id.*

DOCKET NO. RPU-2018-0003
PAGE 25

9. Rate Mitigation

The Settlement included the following rate mitigation principle, which would replace a similar principle that was originally included in the Wind XI⁹⁸ principles and proposed by MidAmerican in this proceeding:

The revenue-sharing calculation approved by the Board in Docket No. RPU-2016-0001 shall be modified as follows: The threshold for revenue sharing shall be the weighted average cost of common equity or 11%, whichever is less. The weighted average cost of common equity shall be calculated annually based on the equity returns approved by the Board for all ratemaking principles rate base assets and all other rate base assets, utilizing the two-point average rate base in the annual revenue sharing calculation. The equity return for all other rate base assets shall be based on 30-year single-A utility bond yields (as published by Moody's Investors Service, Inc. as of June 30th of each year) plus 400 basis points, with a minimum return of 9.5%. To the extent that Iowa jurisdictional electric operating income exceeds the threshold, 90% of the excess shall be credited to customers. The methodology used to calculate revenue sharing will be as approved by the Board in Docket No. RPU-03-01. Any revenue-sharing proceeds for the customers' benefit shall be used to reduce the investment in generation rate base, as follows:

- 50% of the revenue sharing proceeds will be applied to the following rate base assets in this order: (1) Walter Scott, Jr. Energy Center Unit 4; (2) Ottumwa Generating Station; (3) Louisa Generating Station; (4) Neal Energy Center 4; (5) Neal Energy Center 3; (6) Walter Scott Energy Center 3; and (7) Quad Cities Nuclear Power Station.
- 50% of the revenue sharing proceeds will be applied to the following rate base assets in this order: (1) Walter Scott, Jr. Energy Center Unit 4; (2) Greater Des Moines Energy Center; (3) Wind I Project; (4) Wind II Project; (5) Wind VII Project; (6) Wind III Project; (7) Wind IV Project; (8) Wind V Project; (9) Wind VI Project; and to the extent they are included in rate base, the following projects will be added in this order: (10) Wind VIII Project; (11) Wind IX Project; (12) Wind X Project; and (13) Wind XI Project.

⁹⁸ See *In re MidAmerican Energy Company*, "Order Approving Settlement with Reporting Requirements," Docket No. RPU-2016-0001 (Aug. 26, 2016).

DOCKET NO. RPU-2018-0003
PAGE 26

Iowa jurisdictional electric operating income above that required to achieve the weighted average cost of common equity shall benefit customers 90% as described above. This ratemaking principle shall become effective in 2019 and remain in effect until either: 1) the Wind XII assets are reflected in rates in a future MidAmerican Iowa electric rate case, or 2) Wind XII federal production tax credits expire. In the event Wind XII federal production tax credits expire, the revenue sharing methodology shall revert back to the methodology approved by the Board in Docket No. RPU-2013-0004.⁹⁹

OCA proposes several changes to the rate mitigation principle approved in Wind XI,¹⁰⁰ including eliminating the minimum 9.5% return on all other rate base assets and reducing the share of earnings in excess of the threshold to be shared with ratepayers from 100% to 90% (as reflected in the Settlement).¹⁰¹ OCA argues these changes would incentivize MidAmerican to increase its earnings and increase revenue sharing with ratepayers, which would further reduce rate base.¹⁰²

Sierra Club suggested that instead of applying the revenue sharing proceeds as indicated in the proposed principle, MidAmerican should apply 100% of proceeds to George Neal South Unit 3, then George Neal South Unit 4, then Walter Scott 4.¹⁰³ Sierra Club states this application order addresses MidAmerican's failure to fully analyze the economic feasibility of its coal-fired generation.¹⁰⁴ Sierra Club argues

⁹⁹ Settlement at pp. 4-5.

¹⁰⁰ The principle approved by the Board in Docket No. RPU-2016-0001 differs from the Settlement principle only by updating references to the last MidAmerican Wind project, adjusting the percentage of the income in excess of the threshold which is credited to customers, and extending the ratemaking principle until the Wind XII assets are placed in rate base or its PTCs expire.

¹⁰¹ OCA Exh. Turner Reb. at pp. 17-20.

¹⁰² *Id.*

¹⁰³ Sierra Club Comments on Settlement at p. 2.

¹⁰⁴ *Id.*

DOCKET NO. RPU-2018-0003
PAGE 27

this reordering would accelerate the depreciation of at least two uneconomic MidAmerican coal facilities, facilitating an earlier retirement date for those facilities.¹⁰⁵

Environmental Intervenors object to the Settlement on a number of grounds but specifically state that without additional ratemaking principles, the key environmental benefits in the docket may not materialize.¹⁰⁶ Environmental Intervenors contend that absent additional ratemaking principles, the Board could address these concerns by modifying the proposed Rate Mitigation principle to accelerate the depreciation of uneconomic coal facilities.¹⁰⁷

10. Iowa Retail Energy Benefits

The Settlement includes an Iowa Retail Energy Benefits principle which modifies a principle originally included in MidAmerican's Application.¹⁰⁸ The original proposed principle reads:

The following ratemaking treatment for Wind XII shall remain in effect until the assets are reflected in rates in MidAmerican's next Iowa electric rate case. Each month 100% of the Iowa retail energy benefits from Wind XII production shall be excluded from the Iowa EAC approved in MidAmerican's 2013 Rate Case. However, the Iowa retail energy benefits from Wind XII production shall be included in the calculation of any revenue sharing for the year.¹⁰⁹

The Settlement principle reads:

The following ratemaking treatment for Wind XII shall remain in effect until the assets are reflected in rates in MidAmerican's next Iowa electric rate case. Each month 100% of the Iowa retail energy benefits from Wind

¹⁰⁵ *Id.*

¹⁰⁶ Environmental Intervenors Objection to Settlement at pp. 6-11.

¹⁰⁷ *Id.* at 11.

¹⁰⁸ Application at p. 16.

¹⁰⁹ *Id.*

DOCKET NO. RPU-2018-0003
PAGE 28

XII shall be excluded from the Iowa EAC and be used to accelerate depreciation on Walter Scott Jr. Energy Center Unit 4 (“WSEC4”) (i.e., rate base reductions) through revenue sharing without regard to whether MidAmerican otherwise would have exceeded the revenue sharing threshold. Such accelerated depreciation on WSEC4 (both the depreciation expense and rate base reduction) shall be included in the calculation of any additional revenue sharing for the year. Any additional revenue sharing in excess of the undepreciated cost of WSEC4 would be used to reduce rate base in the following order: (1) Ottumwa Generating Station; (2) Louisa Generating Station; (3) Neal Energy Center 4; (4) Neal Energy Center 3; and (5) Walter Scott Jr. Energy Center 3.¹¹⁰

The Settlement version of the Iowa Retail Energy Benefits principle further incorporates the process discussed by the parties in the Rate Mitigation principle.¹¹¹ The modified Settlement principle would direct that the retail energy benefits from Wind XII would not flow through MidAmerican’s energy adjustment clause (EAC) tariff and would instead be used to accelerate the depreciation of the Walter Scott Jr. Energy Center Unit 4.¹¹²

Sierra Club and Environmental Intervenors provided similar comments as with the Rate Mitigation principle; namely, they contend reordering the accelerated depreciation schedule to older facilities would provide customer benefits should older coal-fired facilities be retired.¹¹³

At hearing, MidAmerican witness Thomas Specketer stated that reordering the facilities, as proposed by Sierra Club and supported by

¹¹⁰ Settlement at p. 5.

¹¹¹ See Motion to Approve Stipulation and Agreement at p. 6.

¹¹² Settlement at p. 5.

¹¹³ Sierra Club Comments on Settlement at pp. 2, 6-9; Environmental Intervenors Objection to Settlement at p. 11.

DOCKET NO. RPU-2018-0003
PAGE 29

Environmental Intervenors, would not necessarily provide more flexibility but would likely lead to lower revenue sharing and increased rate base.¹¹⁴

Board Discussion

In considering the Settlement, the Board examines whether the settlement as a whole meets the Board's settlement rules.¹¹⁵ The Board does this to ensure that a proposed settlement is reasonable, not contrary to the law, and in the public interest.

First, the Board will consider whether the Settlement is reasonable in light of the entire record. The Settlement explains the rationale behind each of the proposed principles. A majority of the principles are the same or substantially similar to other ratemaking principles approved by the Board in prior cases, in particular MidAmerican's Wind XI project.¹¹⁶ The record in this case indicates that many of the same principles approved in Wind XI are still appropriate based on the similarities between the projects.

To the extent the settled principles deviate from the original proposed principles and those approved in Wind XI, the settling parties introduced sufficient evidence to indicate why a modification is appropriate. In particular, the settled return on equity (ROE) of 11.00% is within the range of values proposed by the parties in

¹¹⁴ Tr. at 97-98.

¹¹⁵ See, e.g., *In re MidAmerican Energy Company*, "Order Approving Settlement with Reporting Requirements," Docket No. RPU-2016-0001 (Aug. 26, 2016); *In re Interstate Power and Light Company*, "Order Cancelling Hearing and Approving Settlement Subject to Modification and Reporting Requirements," Docket No. RMU-2016-0005 (Oct. 25, 2016); *In re MidAmerican Energy Company*, "Order Approving Settlement," Docket No. RPU-02-10 (May 29, 2003).

¹¹⁶ See *In re MidAmerican Energy Company*, "Order Approving Settlement with Reporting Requirements," Docket No. RPU-2016-0001 (Aug. 26, 2016).

DOCKET NO. RPU-2018-0003
PAGE 30

their initial testimony and is the same rate previously approved by the Board in a number of similar wind generation cases.¹¹⁷ Additionally, the parties explained at hearing that the rate mitigation principle was modified as part of the settlement because it would allow the company to reduce the amount of coal, nuclear, and wind assets in rate base by accelerating the depreciation of those units, mitigating the need for future rate increases.¹¹⁸

Second, the Board finds that the settlement is consistent with the law. The Board has determined that MidAmerican has complied with Iowa Code § 476.53(3)(c)(1)-(2) and that ratemaking principles may be granted for the Wind XII project.

Third, the Board finds that the settlement and proposed principles are in the public interest. The settling parties, including OCA, note that the goal of many of the settled principles encourage a balance of risks and benefits between the company and its ratepayers. The Settlement as a whole will help ensure that MidAmerican's current and future customers will continue to enjoy adequate service and facilities at reasonable rates while reducing the company's reliance on fossil fuels and exposure to fluctuating energy market prices. By depreciating MidAmerican's generation assets, the Settlement would reduce the rates paid by customers once those assets are put into rate base in MidAmerican's next general rate case.

¹¹⁷ See, e.g., *In re Interstate Power and Light Company*, "Final Decision and Order," Docket No. RPU-2017-0002 (April 17, 2018).

¹¹⁸ Tr. at pp. 67-68 (explaining that the goal of the rate mitigation principle, as originally proposed in Wind XI, is still applicable to the Wind XII proceeding).

DOCKET NO. RPU-2018-0003
PAGE 31

B. Additional Proposed Principles

Environmental Intervenors and Sierra Club introduced three additional principles for consideration: Coal Retirements, Cost-Effectiveness Analysis, and Pre-Approval of Capital Additions.

1. Coal Retirements

Environmental Intervenors proposed adding a ratemaking principle that would read:

Before MidAmerican is allowed to include any generation asset approved in this docket in rate base, MidAmerican must retire an equivalent amount of coal capacity and remove it from rate base.¹¹⁹

Environmental Intervenors witness Kerri Johannsen alleges that many of the environmental benefits claimed by MidAmerican will not materialize without an additional principle that would specifically require the company to retire coal facilities.¹²⁰ Ms. Johannsen notes that although renewable generation limits exposure to fuel price and emissions regulation risks, wind generation alone, without additional retirement of coal facilities, is insufficient to actually reduce the use of coal facilities.¹²¹

Sierra Club supports the proposed principle by indicating that coal plants are generally cost-effective if they can operate profitably 60% of the time.¹²² Sierra Club

¹¹⁹ Environmental Intervenors Exh. Johannsen Dir. at p. 5.

¹²⁰ *Id.*

¹²¹ *Id.* at 10.

¹²² Sierra Club Exh. Chernick Dir. at pp. 17-21.

DOCKET NO. RPU-2018-0003
PAGE 32

asserts that should the coal plants run below this threshold, the plants are uneconomical.¹²³

MidAmerican contends that the principle is inappropriate for the proceeding because the role of current facilities in MidAmerican's portfolio is not in question in this proceeding.¹²⁴ MidAmerican claims the proposed principle is beyond the scope of this proceeding, which is only to evaluate the reasonableness of the Wind XII project. MidAmerican states it will continue to rely on its coal facilities to provide reliable service, and retirement of the facilities is not necessary for customers to receive the projected benefits of Wind XII.

Board Discussion

MidAmerican explains that although adding Wind XII would allow it to provide 100% of its customer energy load over a year, the actual energy demand and production will fluctuate significantly during the course of each day and week. In order to provide reliable electric service to customers, baseload generation like coal is necessary to meet the variable demand. The Board does not believe it appropriate to condition the approval of Wind XII on a principle that could potentially jeopardize MidAmerican's ability to provide reliable service to its customers. For this reason, the Board will decline to adopt the proposed principle.

¹²³ *Id.*

¹²⁴ MidAmerican Exh. Wright Reb. at pp. 5-6.

DOCKET NO. RPU-2018-0003
PAGE 33

2. Cost Effectiveness Analysis

Environmental Intervenors and Sierra Club both propose additional principles regarding the cost-effectiveness of existing coal units. Environmental Intervenors proposed a principle that states:

Every other year, MidAmerican must undertake and submit to the Board an analysis of the cost-effectiveness and risks to customers of continuing to operate its coal generators compared to replacing this capacity with renewables, storage, demand-side management, and other clean resources.¹²⁵

Sierra Club amended the proposed principle to read:

Within one year, MidAmerican must file with the Board a comprehensive analysis of the cost-effectiveness of each of its coal-fired generating units. MidAmerican must update this analysis bi-annually and shall provide the Board an opportunity to review through a contested hearing whether the coal units remain used and useful and whether continued operation is in the public interest.¹²⁶

Both parties contend that this principle will ensure that MidAmerican's generation portfolio does not become overly reliant on coal and wind.¹²⁷ This principle would allow MidAmerican to propose and transition to a more flexible long-term plan to reduce its fossil-fuel generation.¹²⁸

MidAmerican contends this analysis would require the Board to re-interpret the law in a way it has not been asked to do before.¹²⁹ MidAmerican alleges that the proposed principle would require the Board to evaluate generation assets beyond the

¹²⁵ Environmental Intervenors Exh. Johannsen Dir. at p. 5.

¹²⁶ Sierra Club Comments on Stipulation and Settlement at p. 2.

¹²⁷ *Id.* at 9-10; Environmental Intervenors Exh. Johannsen Dir. at pp. 13-22.

¹²⁸ Environmental Intervenors Exh. Johannsen Dir. at p. 4.

¹²⁹ MidAmerican Exh. Wright Reb. at pp. 9-10.

DOCKET NO. RPU-2018-0003
PAGE 34

scope of newly-proposed projects, which MidAmerican contends is outside the scope of Iowa Code § 476.53.¹³⁰

Board Discussion

The supporting parties both indicate that an analysis would provide the Board with a better understanding of the company's potentially uneconomic facilities and would encourage MidAmerican to build a more flexible portfolio that relies less heavily on fossil fuels. These goals are consistent with the energy policy of the state. Nevertheless, the Board will decline to adopt either variation of the proposed principle. The narrow question before the Board in this proceeding relates to the reasonableness of Wind XII, not an evaluation of MidAmerican's entire generation fleet. This is not to say the Board may never evaluate whether generation facilities are uneconomic; should a rate-regulated utility continue to utilize an uneconomic facility, the Board may disapprove the costs incurred as imprudent or unreasonable during a rate case. Accordingly, the Board finds, on the basis of the record before it that it will decline to adopt a principle requiring MidAmerican to file a coal-fired generation economic analysis with the Board.

3. Pre-Approval of Capital Additions

Sierra Club also proposed conditioning any approval on a principle that would resemble the following text:

¹³⁰ *Id.* at 10.

DOCKET NO. RPU-2018-0003
PAGE 35

Requiring MidAmerican to file for approval of annual capital expenditures for its coal generating units, to ensure that MidAmerican is only investing in resources that remain economically used and useful.¹³¹

Like the other proposed principles, Sierra Club contends that portions of MidAmerican's coal generation are no longer a cost-effective resource and that any additional capital expenditures on these coal facilities would be detrimental to MidAmerican's customers.¹³²

MidAmerican states that since its coal generation assets are not the subject of this particular docket, the principle is inapplicable to this proceeding.¹³³ MidAmerican asserts that it does not oppose a condition for any capital addition at certain coal plants being subject to retroactive prudence review, as currently allowed in the law.¹³⁴

Board Discussion

The Board finds that the proposed principle is inappropriate in this proceeding. Should the company invest in an uneconomic project, the Board will evaluate the prudence and reasonableness of the investment during a general rate case. Limiting MidAmerican's ability to maintain its current generation could compromise the Board's goal of ensuring reliable electric service at reasonable rates. For these reasons, the Board will deny the proposed principle.

¹³¹ Sierra Club Exh. Chernick Reb. at p. 14.

¹³² *Id.* at 22-26.

¹³³ MidAmerican Motion to Strike at p. 2.

¹³⁴ *Id.* at n. 3.

DOCKET NO. RPU-2018-0003
PAGE 36

REQUEST FOR WAIVER

On August 10, 2018, MidAmerican filed a Request for Waiver seeking a waiver of the Board's rules at 199 IAC 20.9(1) and (2). MidAmerican states that under the proposed Iowa Retail Energy Benefits principle, MidAmerican would exclude the Wind XII generation from the calculation of recoverable Iowa retail fuel costs each month; this could be read as inconsistent with 199 IAC 20.9(1) and (2), which references the actual cost of fuel.¹³⁵ On August 17, 2018, OCA filed a response to the waiver request asking the Board to address the waiver request in the final order.¹³⁶

The Board may grant a waiver of its rules when it finds, based on clear and convincing evidence, that:

1. The application of the rule would pose an undue hardship on the person for whom the waiver is requested;
2. The waiver would not prejudice the substantial legal rights of any person;
3. The provisions of the rule subject to a petition for waiver are not specifically mandated by statute or another provision of law; and
4. Substantially equal protection of public health, safety, and welfare will be afforded by a means other than that prescribed in the rule for which the waiver is requested.¹³⁷

The party seeking a waiver bears the burden of demonstrating by clear and convincing evidence that a waiver should be granted.¹³⁸

¹³⁵ MidAmerican Request for Waiver at p. 2.

¹³⁶ OCA Response to Request for Waiver at p. 1.

¹³⁷ 199 IAC 1.3.

¹³⁸ *Id.*

DOCKET NO. RPU-2018-0003
PAGE 37

MidAmerican contends that without the waiver, the company and its customers would bear an undue hardship because the ratemaking principles would result in an unbalanced outcome, creating a “mismatch” between the benefits provided to customers and the company’s recovery of corresponding costs.¹³⁹ When combined with the Rate Mitigation principle, the Iowa Retail Energy Benefits principle benefits customers by reducing rate base on specified assets to balance the benefits of the project between the company and its customers.¹⁴⁰

MidAmerican next asserts the waiver would not prejudice the substantial legal rights of any person and would ultimately provide environmental, economic development, and tax benefits to Iowans at no additional cost to customers.¹⁴¹ Further, the provisions of 199 IAC 20.9 are not required by statute or other provision of law.¹⁴² Finally, MidAmerican claims the waiver would not adversely impact public health, safety, or welfare as Wind XII would be constructed and operated in accordance with the environmental policies of the state and good engineering practice.¹⁴³

Board Discussion

The Iowa Retail Energy Benefits principle is not an exact match for the EAC rules. MidAmerican and its customers would suffer undue hardship if the rule was

¹³⁹ MidAmerican Request for Waiver at p. 3.

¹⁴⁰ *Id.* at 4.

¹⁴¹ *Id.*

¹⁴² *Id.*

¹⁴³ *Id.* at 5.

DOCKET NO. RPU-2018-0003
PAGE 38

enforced in this proceeding because application of 199 IAC 20.9(1) and (2) would create an imbalance in the benefits and costs between MidAmerican and its customers, who would then not receive all the benefits of the Wind XII project. No person's legal rights would be prejudiced by the waiver as the issues leading to the waiver have been litigated in this case. Further, the application of 199 IAC 20.9 is not mandated by statute or other provision of the law, and granting the waiver would not adversely impact public health, safety, or welfare, as MidAmerican must still comply with the applicable rules, regulations, and ordinances that would apply to the project. Accordingly, the Board finds that the waiver should be granted.

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The Application for Ratemaking Principles, filed by MidAmerican Energy Company on May 30, 2018, complies with Iowa Code § 476.53(3)(c) and MidAmerican Energy Company's request for ratemaking principles is granted.
2. The Stipulation and Agreement filed by MidAmerican Energy Company; the Office of Consumer Advocate, a division of the Iowa Department of Justice; the Iowa Business Energy Coalition; and Google LLC and Facebook, Inc., on September 14, 2018, is approved pursuant to 199 Iowa Administrative Code 7.18. The ratemaking principles agreed to therein are included as Attachment A to this Order.

DOCKET NO. RPU-2018-0003
PAGE 39

3. The Request for Waiver of 199 Iowa Administrative Code 20.9(1) and (2) filed by MidAmerican Energy Company on August 10, 2018, pursuant to 199 Iowa Administrative Code 1.3, is granted.

UTILITIES BOARD

/s/ Geri D. Huser

/s/ Nick Wagner

ATTEST:

/s/ Bradley Nielsen /s/ Richard W. Lozier Jr.

Dated at Des Moines, Iowa, this 4th day of December, 2018.

**IN RE MIDAMERICAN ENERGY COMPANY
DOCKET NO. RPU-2018-0003**

ATTACHMENT A

APPROVED RATEMAKING PRINCIPLES

	Ratemaking Principle	Description
1.	Iowa Jurisdictional Allocation	Wind XII will be allocated to Iowa in the same manner as the Greater Des Moines Energy Center, Walter Scott Jr. Energy Center Unit No. 4, and prior Wind Power Projects (i.e., Wind I through Wind XI).
2.	Cost Cap	A cost cap of \$1.560 million per MW (including AFUDC) on a Project-wide basis. In the event that actual capital costs are lower than the projected capital costs, rate base shall consist of actual costs. In the event actual capital costs exceed the cost cap, MidAmerican shall be required to establish the prudence and reasonableness of such excess costs before such excess costs can be included in rates.
3.	Size Cap	The ratemaking principles shall be applicable to all new MidAmerican wind generation built as part of Wind XII, not to exceed 591 MW.
4.	Depreciation	The depreciation life of the Wind XII Project for ratemaking purposes shall be 40 years. MidAmerican shall be able to revise the depreciable life in the event an independent depreciation expert provides support for a different useful life and a change in the depreciable life is approved by the Board in a contested case proceeding in which parties to the ratemaking principles proceeding may participate and present evidence either in support of or in opposition to the proposed change in depreciable life. MidAmerican shall notify such parties of any application filed with the Board asking that the depreciable life of Wind XII be revised.
5.	Return on Equity	The allowed return on the common equity portion of Wind XII, constructed pursuant to this Ratemaking Principles Application, that is included in Iowa electric rate base, shall be 11.00%. An AFUDC rate that recognizes a return on common equity rate of 10.0% shall be applied to construction work in progress.
6.	Cancellation Cost Recovery	In the event MidAmerican cancels any Wind XII Project site for a commercially reasonable cause, MidAmerican's prudently incurred and unreimbursed

		<p>costs shall be amortized over a period of ten years beginning no later than six months after the cancellation. The annual amortization shall be recorded above-the-line and included in MidAmerican's revenue sharing or revenue requirement calculations, but the unamortized balance shall not be included in rate base in any such calculations.</p>
<p>7.</p>	<p>Environmental Benefits, CO2, and the Like</p>	<p>Excluding any contractual obligations for environmental benefits that exist as of 1/1/2015, all environmental benefits of Wind I-X and Wind XII (including any repowering, additions, replacements or expansion(s)) shall be allocated to each of the customer classes based on class kilowatthour ("kWh") sales. Upon the written election by any Individual Customer Rate ("ICR") customer ("Electing Customer"), MidAmerican shall retire, or retire on behalf of the Electing Customer (so long as retirement on behalf of such customer does not jeopardize MidAmerican's ability to comply with environmental regulations or constitute a transfer of the environmental and compliance benefits), through the Midwest Renewable Energy Tracking System ("M-RETS"), or other comparable process acceptable to the Electing Customer, such Electing Customer's allocation of the environmental and compliance benefits of Wind I-X and Wind XII (including any repowering, additions, replacements or expansion(s)) that MidAmerican does not need for environmental compliance. Any Electing Customer shall notify MidAmerican within 60 days of MidAmerican's notice to customers of this option, which notice shall be provided within 30 days of a final order of the Iowa Utilities Board approving ratemaking principles associated with Wind XII that are acceptable to MidAmerican. For future ICR customers, MidAmerican must provide notice to customers of the option to elect this option within 30 days of their becoming an ICR customer. MidAmerican will prudently manage all other environmental and compliance related benefits from Wind I-X and Wind XII (including any repowering, additions, replacements or expansion(s)) for the benefit of all other customers. MidAmerican will provide at least eighteen months' notice to customers prior to any change in MidAmerican's current policy of retiring all renewable energy certificates on behalf of all customers. The Iowa portion of any revenues from the sale of environmental or compliance related benefits associated with Wind I-X</p>

		<p>and Wind XII, excluding any contractual obligations for environmental benefits that exist as of 1/1/2015, shall be recorded as a regulatory liability and will be excluded from the Iowa Energy Adjustment Clause (“EAC”) and revenue sharing as approved in MidAmerican’s 2013 rate case until the investment and all other costs and benefits of Wind XII are included in base rates or the EAC in a future rate proceeding. For subsequent rate cases, MidAmerican proposes that the Iowa jurisdictional portion of the investment and all other costs and benefits of Wind XII shall be included in base rates, and the Iowa jurisdictional portion of any revenues from the sale of environmental or compliance related benefits associated with Wind XII shall be included in the EAC.</p>
<p>8.</p>	<p>Federal Production Tax Credits</p>	<p>The Iowa jurisdictional portion of any federal production tax credits associated with Wind XII will be recorded above-the-line in FERC account 409.1, or any successor account for recording such credits. However, the Iowa jurisdictional portion of any federal production tax credits associated with Wind XII will be excluded from the Iowa EAC. For subsequent rate proceedings that address Wind XII, the Iowa jurisdictional portion of the investment and all other costs and benefits of Wind XII shall be included in base rates, and the Iowa jurisdictional portion of any federal production tax credits associated with Wind XII shall be included in the EAC.</p> <p>Customers shall receive, through customer rates or through revenue sharing, the full value of the federal production tax credits associated with Wind XII. The value that customers receive in rates or through revenue sharing shall be the grossed up value of the production tax credit. To the extent MidAmerican is not able to monetize the production tax credits in the year they are earned, MidAmerican will earn its embedded cost of debt on the deferred tax asset.</p> <p>To the extent any turbines are not commercially operational in time to receive 100% of the maximum production tax credit benefits under tax law as of the date this principle is effective, the return on rate base associated with such turbines which shall include a capacity ratio share of any interconnection,</p>

		<p>transmission, distribution and AFUDC costs will be limited to MidAmerican's embedded cost of debt.</p>
<p>9.</p>	<p>Rate Mitigation</p>	<p>The revenue-sharing calculation approved by the Board in Docket No. RPU-2016-0001 shall be modified as follows: The threshold for revenue sharing shall be the weighted average cost of common equity or 11%, whichever is less. The weighted average cost of common equity shall be calculated annually based on the equity returns approved by the Board for all ratemaking principles rate base assets and all other rate base assets, utilizing the two-point average rate base in the annual revenue sharing calculation. The equity return for all other rate base assets shall be based on 30-year single-A utility bond yields (as published by Moody's Investors Service, Inc. as of June 30th of each year) plus 400 basis points, with a minimum return of 9.5%. To the extent that Iowa jurisdictional electric operating income exceeds the threshold, 90% of the excess shall be credited to customers. The methodology used to calculate revenue sharing will be as approved by the Board in Docket No. RPU-03-01. Any revenue-sharing proceeds for the customers' benefit shall be used to reduce the investment in generation rate base, as follows:</p> <ul style="list-style-type: none"> • 50% of the revenue sharing proceeds will be applied to the following rate base assets in this order: (1) Walter Scott, Jr. Energy Center Unit 4; (2) Ottumwa Generating Station; (3) Louisa Generating Station; (4) Neal Energy Center 4; (5) Neal Energy Center 3; (6) Walter Scott Energy Center 3; and (7) Quad Cities Nuclear Power Station. • 50% of the revenue sharing proceeds will be applied to the following rate base assets in this order: (1)Walter Scott, Jr. Energy Center Unit 4; (2) Greater Des Moines Energy Center; (3) Wind I Project; (4) Wind II Project; (5) Wind VII Project; (6) Wind III Project; (7) Wind IV Project; (8) Wind V Project; (9) Wind VI Project; and to the extent they are included in rate base, the following projects will be added in this order: (10) Wind VIII Project; (11) Wind IX Project; (12) Wind X Project; and (13) Wind XI Project.

		<p>Iowa jurisdictional electric operating income above that required to achieve the weighted average cost of common equity shall benefit customers 90% as described above. This ratemaking principle shall become effective in 2019 and remain in effect until either: 1) the Wind XII assets are reflected in rates in a future MidAmerican Iowa electric rate case, or 2) Wind XII federal production tax credits expire. In the event Wind XII federal production tax credits expire, the revenue sharing methodology shall revert back to the methodology approved by the Board in Docket No. RPU-2013-0004.</p>
<p>10.</p>	<p>Iowa Retail Energy Benefits</p>	<p>The following ratemaking treatment for Wind XII shall remain in effect until the assets are reflected in rates in MidAmerican's next Iowa electric rate case. Each month 100% of the Iowa retail energy benefits from Wind XII shall be excluded from the Iowa EAC and be used to accelerate depreciation on Walter Scott Jr. Energy Center Unit 4 ("WSEC4") (i.e., rate base reductions) through revenue sharing without regard to whether MidAmerican otherwise would have exceeded the revenue sharing threshold. Such accelerated depreciation on WSEC4 (both the depreciation expense and rate base reduction) shall be included in the calculation of any additional revenue sharing for the year. Any additional revenue sharing in excess of the undepreciated cost of WSEC4 would be used to reduce rate base in the following order: (1) Ottumwa Generating Station; (2) Louisa Generating Station; (3) Neal Energy Center 4; (4) Neal Energy Center 3; and (5) Walter Scott Jr. Energy Center 3.</p>